Volunteer Return Preparation Training (VITA/TCE) TY 2004

Welcome

- Sponsoring Organization or Agency
- Course number
- Instructors
- Contact information

e-learning Options

Link & Learn Taxes

linking volunteers to quality e-learning solutions

IRS-SPEC's new e-learning application

&

Understanding Taxes Website

http://www.irs.gov/app/understandingTaxes/index.jsp

IRS

Important Changes

- **These will be covered in more depth in the appropriate lesson.**
  - Standard deduction
  - Exemption amount
  - Standard mileage rate
  - Business meal expenses for DOT
  - Schedule C-EZ allowable business expenses

Important Changes – continued

- EIC maximum credits for tax year 2004
- Maximum income a taxpayer can earn to qualify for EIC
- Investment Income

Important Changes - Continued

- Education Credits maximum Modified Adjusted Gross Income (MAGI)
- Wage limits for social security tax
- Traditional IRAs Modified Adjusted Gross Income limits
- Maximum Section 179 deductions

Introduction & Administrative Guidelines

Tax Year 2004 Administrative Enhancements

Fact-Gathering Process

A three-part process

1. Critical Intake Questions
2. Interview Tips
3. Quality Review Checklist

Fact-Gathering Process - Continued

Effective Interviewing

- Steps to Effective Interviews
- Interview Tips
- FAQs of Taxpayers

Fact-Gathering Process - Continued

Site Reference Materials

- Volunteer Web Site (www.irs.gov - keyword: Community Network)
- Volunteer Resource Guide (Publication 4012)
- Volunteer Hotline
- Site Coordinator

Standards of Conduct

Form 13615 - Standards of Conduct

- Volunteers have a responsibility to provide quality service and to uphold ethical standards
- Signed copy will be required of all volunteers

Site Identification Number

Composition of the SIDN --

STT-BP-XXXX

S = SPEC Volunteer Tax Preparation Site

TT = Area/Territory Identifier

B = Branch code (1-3 valid)

P = Program Type Identifier (1-VITA; 2–Military VITA; 3-Co-located VITA; 4-TCE non-AARP; 5-TCE – AARP.

XXXX = 4 - digit numerical site location identifier

Privacy And Confidentiality Guidelines

- Privacy Act of 1974
- Civil Rights Act of 1964

Evaluation Process

- **Use the proper course number.**

Course Scope & Sequence

- Basic
- Wage Earner
- Pension Earner
- Lesson Sequence

Volunteer Testing & Certification

"Assist only with returns, supporting schedules, and forms for which you've trained and certified."

Session Summary

Let's complete this slide together!!

What were the key points of this session?

LESSON 1

GETTING STARTED

LESSON 1 - OBJECTIVES

- Explain the importance of requiring a social security card for the tax preparation.
- Determine which taxpayers need an Individual Taxpayer Identification Number (ITIN).
- Use the 5 tests for a qualifying dependent.

New Tax Law

Working Families Tax Relief Act of 2004

- Form 8332, Release of Claim to Exemption for Child of Divorced or Separated Parents

Social Security Cards

Review Social Security and identification cards to:

- ensure the identity of the taxpayer
- verify Social Security Number
- prevent processing delays
- reduce the number of rejects

Individual Taxpayer Identification Number (ITIN)

- What is an ITIN?
- Who Needs an ITIN?

Individual Taxpayer Identification Number (ITIN) - continued

- What is an ITIN/SSN Mismatch?
- ITIN Tax Preparation Guidelines
- Returns prepared with no ITIN

Individual Taxpayer Identification Number (ITIN) - continued

- New Procedures For Individual Taxpayer Identification Numbers (ITINs) Exception For Overseas Military

IRS

Frequently Asked ITIN Questions and Answers

Question

What should I do if a customer comes to the site with a completed Form W-7 and needs a federal return completed to attach to the W-7 for submission to the IRS?

Frequently Asked ITIN Questions and Answers

Answer

- Complete the returns) if the customer has his/her tax records and meets other site requirements
- Advise the customer to:
  - – mail the tax return, Form W-7, and applicable documentation to the Philadelphia Service Center, or
  - – take Form W-7 with the federal return and required identity documents to an authorized acceptance agent

Frequently Asked ITIN Questions and Answers

Question

What if a customer comes in and does not have an SSN or ITIN?

Frequently Asked ITIN Questions and Answers

Answer

- A Taxpayer Identification Number (TIN) is required to file a federal tax return
- A TIN may be an SSN or an ITIN

Frequently Asked ITIN Questions and Answers

Question

What if a customer's spouse or dependents do not have TIN or wages?

Frequently Asked ITIN Questions and Answers

Answer

- To file a joint return or claim dependents on a federal tax return both the spouse and dependents must have a TIN

Frequently Asked ITIN Questions and Answers

Question

What if the taxpayer comes in with the correct SSN on one Form W-2 and an incorrect SSN on a second Form W-2?

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Frequently Asked ITIN Questions and Answers

Answer

- Advise the taxpayer to contact the employer who gave the incorrect Form W-2 and ask for a corrected Form W-2. If received before the April 15 filing deadline, he/she may come back to the site for free tax preparation.

IRS

Frequently Asked ITIN Questions and Answers

Question

What if a taxpayer or spouse has an ITIN and SSN?

Frequently Asked ITIN Questions and Answers

Answer

- Both numbers cannot be valid
- If you can determine the valid number, you may complete the return
- If you cannot, advise the taxpayer to seek professional assistance

Personal And Dependency Exemptions

- Define personal exemption
- Define dependency exemption

Interview Tips

Personal Exemptions

Dependency Tests

- Member of the Household or Relationship
- Citizen or Resident
- Joint Return
- Gross Income
- Support

Interview Tips

Dependency Exemptions, Member of Household or Relationship Test

Interview Tips

Dependency Exemptions, Citizen or Resident Test

Interview Tips

Dependency Exemptions, Joint Return Test

Interview Tips

Dependency Exemptions, The Gross Income Test

Interview Tips

Dependency Exemptions, The Support Test

Determining The Number Of Exemptions To Claim

Do not claim an exemption for a person who can be claimed on another return.

Completing The Exemption Section Of Forms 1040A and 1040

- Children who lived with the taxpayer
- Children who lived with the taxpayer due to divorce or separation
- Other dependents

LESSON 2

Filing Status and Filing Requirements

Lesson 2 - Objectives

- Apply the requirements for each of the five filing statuses.
- Determine who must file.
- Determine who should file.
- Select the appropriate tax form to use.

Filing Status

- Single
- Married Filing Jointly
- Married Filing Separately
- Head of Household
- Qualifying Widow(er) with Dependent Child

Interview Tips

Filing Status

Who Must/Should File

- Charts are provided to help you determine who must file
- Taxpayers who fall below the filing requirements should file:
  - to claim a refund of withheld taxes
  - to claim an Earned Income Credit
  - to claim the additional Child Tax Credit

Which Form Should You Use

- Simplest form that will accommodate the taxpayer's income and expenses:
  - 1040EZ
  - 1040A
  - 1040

LESSON 3

INCOME

LESSON 3 - OBJECTIVES

- Determine what is taxable and nontaxable income.
- Determine where to report income on Forms 1040, 1040A, and 1040EZ.
- Identify who can file Schedule C-EZ.
- Identify who must file Schedule SE.

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New Tax Law

Working Families Tax Relief Act of 2004

- Inclusion of combat pay as earned income

Taxable Income

- Wages, salaries, commissions, tips
- Interest, dividends, pensions, capital gains
- Alimony, business income, hobby income
- Rents, royalties, estate or trust income
- Unemployment benefits, jury duty pay
- Other items of income unless they are designated as nontaxable

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Nontaxable Items

- Child Support
- Federal income tax refunds
- Gifts and inheritances
- Municipal bond interest
- Public assistance
- Veteran’s disability benefits
- Other items listed in the text

Earned Income

- Wages and Salaries
- Tip Income
- Scholarships and Fellowships

Interest

- Interest Income
- Taxable Interest Income
- Coverdell ESA
- Tax-Exempt Interest

Dividend Income

- Reporting Dividends and Capital Gain Distributions

Other Income

- State and Local Tax Refunds
- Alimony
- Income From Business

Who Can File Schedule C-EZ

- Business expenses do not exceed $5,000
- Use the cash method of accounting
- Did not maintain an inventory
- Did not have a net loss
- Had no employees
- Does not claim depreciation
- Does not deduct expenses for use of home

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Completing Schedule C-EZ and Schedule SE

- Be sure to include the Principal Business Code on the Schedule C-EZ
- You do **not** have to provide details on the type of expenses included
- Complete Schedule SE if the net profit exceeds $400
- Remember to deduct, as an adjustment to income, ½ of the amount calculated on the SE

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Other Income

- Capital Gains and Losses
- Sale of Business Property
- Pension and Annuity Income
- Rents, Royalties, Partnerships, Estates, and Trusts
- Farm Income
- Unemployment Compensation

LESSON 4

ADJUSTMENTS

LESSON 4 - OBJECTIVES

- Calculate and accurately report adjustments to income
- Identify which IRA contributions are within the scope of the VITA/TCE program
- Identify contribution limits for IRAs

New Tax Law

Working Families Tax Relief Act of 2004

- Deduction for Educator Expenses
- Tuition and Fees Deduction

Adjustments to Income

- Educator Expenses
- Contributions to traditional IRAs
- Student Loan interest deduction
- Tuition and Fees Deduction
- One-half of the self-employment tax paid

Adjustments to Income - continued

- Penalty for early withdrawal of savings
- Alimony paid
- Jury duty pay given to employer
- Overnight travel expenses of National Guard and Reserve members

Educator Expenses

- Who is a qualified educator?
- Maximum credit is $250
- What are qualified expenses?

Individual Retirement Accounts

- Contributions to traditional IRAs may result in an adjustment
- Contributions to non-traditional IRAs do not create an adjustment to income and are not covered in this lesson. Examples include:
  - Roth IRAs
  - SIMPLE IRAs
  - Coverdell ESAs

Contribution Limits for IRAs

- Maximum contribution for 2004 is $3,000 if the taxpayer is under age 50
- Maximum contribution for 2004 is $3,500 if the taxpayer is age 50 or over
- Spousal IRAs have the same contribution limits

Deductible Contributions

- Some of the contributed amount may not be deductible depending on:
  - Covered by an employer plan (yourself or spouse)
  - Modified Adjusted Gross Income
  - Filing Status

Non-Deductible IRAs

- If the taxpayer is covered by an employer's pension plan (as indicated on the W-2), part of the IRA contribution may not be tax deductible
- Use Form 8606 to compute and track the non-deductible portion of the IRA

Student Loan Interest

- The maximum deduction for 2004 is $2,500
- If taxpayer paid $600 or more should receive a statement from lender
- AGI limits apply

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Tuition and Fees Deduction

- Tuition and related expenses can now be taken as an adjustment to income
- The maximum deduction for 2004 is $4,000
- AGI limits apply
- Not available to MFS taxpayers

SUMMARY

- Income adjustments covered in this lesson
- How do they effect the Adjusted Gross Income?
- Where do you claim them?

LESSON 5

STANDARD AND ITEMIZED DEDUCTIONS, and

TAX COMPUTATION

LESSON 5 - OBJECTIVES

- Identify the correct standard deduction.
- Calculate and accurately report itemized deductions on Schedule A.
- Identify the miscellaneous deductions reported on Schedule A, line 27.
- Complete the Qualified Dividends and Capital Gain Tax Worksheet.
- Explain the process to calculate and report tax liability.

IRS

New Tax Law

Working Families Tax Relief Act of 2004

- State and Local General Sales Taxes

Standard Deduction

- Based on the following factors:
  - Filing Status
  - Dependency Status
  - Blindness
  - Age

Standard Deduction - Form 1040EZ

- Personal Exemption in Connection with Standard Deduction on Form 1040EZ

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Itemized Deductions

- Standard Deduction vs Itemized Deductions
- When MFS taxpayer must itemize deductions
- Itemized Deductions with AGI limits

Miscellaneous Deductions on Schedule A

- Expenses subject to an AGI limitation vs. expenses not subject to AGI limitation

Total Itemized Deductions

- Work Exercise 6

Electing to Itemize

- Discuss when to itemize when the standard deduction is greater

Taxable Income Computation

- Taxable income less than $100,000
- Qualified Dividends and Capital Gain Tax Worksheet

Tax Liability

- Looking up the tax in the tables, use caution
- Double check the amount
- Checking tax tables vs EIC table
- Qualified Dividends and Capital Gain Tax Worksheet

LESSON 6

Miscellaneous Credits

LESSON 6 - OBJECTIVES

- Determine eligibility for the Credit for the Elderly or the Disabled
- Calculate the Credit for the Elderly/Disabled
- Calculate the Credit for Qualified Retirement Savings Contributions - Form 8880
- Accurately report the Foreign Tax Credit if Form 1116 is not required
- Be aware of the mortgage interest credit

Credit - Elderly/Disabled Qualifications

- U.S. Citizen or resident
- At least age 65 or retired on permanent and total disability
- AGI is less than:
  – Single $17,500
  – MFJ (both spouses qualified) $25,000
  – MFJ (one spouse qualified) $20,000
  – MFS (didn't live together) $12,500

Credit – Elderly/Disabled Computation

- Nontaxable Social Security or nontaxable pension(s) must be less than:
  - Single $5,000
  - MFJ (both spouses qualify) $7,500
  - MFJ (one spouse qualifies) $5,000
  - MFS (didn’t live together) $3,750
- Use Schedule 3 if filing Form 1040A, use Schedule R if filing Form 1040

Credit for Qualified Retirement Savings Contributions

- Contributions to a retirement plan or IRA may be eligible for a tax credit
- Non-refundable credit
- Maximum credit is $1,000
- Limitations based on:
  – Filing status
  – Adjusted Gross Income
  – Qualified contributions

Credit for Qualified Retirement Savings Contributions

- Form 8880 is used to calculate the credit
- Chart for the applicable percentage is part of the form
- If the taxpayer has received any distributions from a retirement plan, you may need to complete line 4 on the form

IRS

Foreign Tax Credit

- If all of the following requirements are met, Form 1116 is **not** required:
  - Foreign-source income is from interest and dividends only
  - The total of the foreign taxes does not exceed $300 ($600 for MFJ)
  - All of the foreign taxes were legally owed and paid to countries recognized by the U.S.

Mortgage Interest Credit

- Hold a qualified Mortgage Interest Credit Certificate on main home
- Must reduce mortgage interest deduction on Schedule A (if itemizing)
- Use Form 8396 to figure credit on mortgage interest paid
- May carry forward unused credit for up to three years

LESSON 7

FINISHING THE RETURN

LESSON 7 - OBJECTIVES

- Calculate and report federal income taxes withheld from all sources
- Calculate and report Estimated Tax payments
- Calculate the refund or amount due
- Determine if Estimated Taxes should be paid
- Determine if changes to the Form W-4 or W-4P should be suggested

IRS

Checklist For Finishing The Return

- Withholdings, Payments, and Other Credits
- Paying Taxes or Adjusting Withholding
- Advance Earned Income Tax Credit
- Name, Address, and Taxpayer ID Section

Checklist For Finishing The Return - continued

- Return Assembly and Copy
- Site Identification Number
- On Site Quality Review
- Signing the Return
- Taxpayer Question
- Where to Mail Paper Returns

Federal Tax Withholding

- Add all federal withheld income tax together
- Withheld income tax can appear in:
  - Form W-2, box 2
  - Form 1099-R, box 4
  - Form 1099-INT, box 4
  - Form 1099-DIV, box 4
  - Form W-2G, box 2
  - Form 1099-G, box 4
  - Form 1099-MISC, box 4

Estimated Tax Payments

- Add all federal Estimated Tax payments together
- Be sure to include:
  - An overpayment from the 2003 return that was applied to 2004 tax payments
  - Payments made using the 1040ES, including the one made in January, 2005

Refund or Balance Due

- If the total payments exceed the total tax, this creates an overpayment
- Overpayments are refunded unless applied to other accounts or tax years
- If the total tax exceeds the total payments, this creates a balance due to be paid with the return

Figuring Estimated Tax for 2005

- If it is expected that $1,000 or more will be owed on the 2005 return, Estimated Tax payments should be explained
- Form 1040ES is used to calculate the amount of the estimated payments
- All checks should be made payable to: United States Treasury

IRS

Form W-4 and W-4P

- These forms are used to tell payers how many withholding allowances the taxpayer is claiming
- If there is a balance due on the 2004 return, the withholding may need to be adjusted
- To change the withholding, a new Form W-4, or Form W-4P, should be completed and presented to the payer

Identifying Returns

- It is imperative that every return prepared has the site identification number (SIDN) in the box labeled “Preparer’s SSN or PTIN”
- This can be accomplished in several ways:
  - Overprint forms: a bold **S** is in the box
  - Paper forms: write in the SIDN
  - Electronic forms: the tax software will automatically include the number from the initial set-up

IRS

LESSON 8

Credit for Child and Dependent Care Expenses

LESSON 8 – OBJECTIVES

- Determine who is eligible for the Credit for Child and Dependent Care Expenses
- Calculate the credit, the exclusion, and report on the expenses on the correct form

Qualification Tests

- To qualify for the credit, a taxpayer must meet the following tests:
  - **Qualifying person** for whom care is provided
  - **Keeping up a home** for the qualifying person
  - **Earned income**
  - **MFJ** – applied to each spouse separately

IRS

Qualifications - continued

- **Work related expense**: work or look for work

  Not for school (grade 1 and up) or overnight camp

  Expenses can not be paid to T/P's child (under age 19) or a dependent claimed on the tax return
- **Joint return** if married (unless exception applies)
- **Provider identification**

Expense Limits

- Earned income
  (Lower paid spouse if MFJ)
- Actual expenses
- $3,000 for one qualifying person
  $6,000 for two or more

Nonworking Spouse

Married taxpayers both need to work unless a spouse is:

- A full-time student (for at least 5 months)
- Or incapable of self-care

Spouse is then assigned income:
$250/month (one child)

$500/month (two or more children)

Completing the Form

- Use Schedule 2 for Form 1040A
- Use Form 2441 for Form 1040
- Complete Part III of the form if the taxpayers received benefits under a dependent care benefits program

LESSON 9

EDUCATION CREDITS

LESSON 9 - OBJECTIVES

- Calculate the Hope Credit on Form 8863
- Calculate the Lifetime Learning Credit on Form 8863

General Requirements

- The taxpayer can not file MFS
- Have qualified expenses
- Have an eligible student
- Eligible student must attend eligible institution
- Meet the income limits

Hope Credit

- Can be claimed for each eligible student
- Maximum is $1,500 credit per student
- Applies to the first two taxable years of postsecondary education
- Calculated in Part I of Form 8863
- Can be claimed on Form 1040A or Form 1040

Lifetime Learning Credit

- Based on the total of qualified expenses, not the number of eligible students
- The maximum credit is $2,000 per year
- The credit is figured in Part II of Form 8863
- The credit can be claimed on Form 1040A or Form 1040

Summary

- A taxpayer cannot:
  - Deduct higher education expenses and also claim a Hope or Lifetime Learning Credit based on the same expenses,
  - Claim a Hope Credit and a Lifetime Learning Credit based on the same qualified education expenses, or
  - Claim a credit based on expenses paid with tax-free scholarship, grant, or employer-provided educational assistance.

LESSON 10

EARNED INCOME CREDIT

LESSON 10 - OBJECTIVES

- Determine which taxpayers are eligible for the earned income credit.
- Determine when a taxpayer has a qualifying child for the EIC.
- Calculate and report the credit using the EIC worksheet.
- Explain how to request advance earned income credit (AEIC) payments.
- Report AEIC on the tax return.

New Tax Law

Working Families Tax Relief Act of 2004

- Inclusion of combat pay as earned income

Who Can Claim The EIC General Eligibility Rules

- Earned income and adjusted gross income limited
- Have valid SSN
- No MFS filing status
- A US citizen or resident alien
- Not file Form 2555 or 2555-EZ
- Investment income limitation

Who Can Claim The EIC
General Requirements - continued

- Have earned income
- Cannot be qualifying child of another person

Investment Income

Includes:

- Taxable interest
- Tax-exempt interest
- Ordinary dividends
- Capital gain net income
- Certain net income form rents and royalties
- Net income from passive activities

Earned Income

- Review notes
  - While an inmate
  - While an household employee
  - Disability benefits
  - Disability insurance payments
- Examples of Earned Income

EIC Interview Tips

EIC General Eligibility Rules

Who Can Claim The Credit With A Qualifying Children

Must meet all 3 tests

- Relationship Test
- Age Test
- Residency Test

Definitions

- Eligible foster child
- Adopted child
- Permanently and totally disabled
- Child who was kidnapped

Qualifying Child of More than One Taxpayer

- Cannot be used by more than one person
- EIC Tie-Breaker Rule

Interview Tips

EIC With A Qualifying Child

Who Can Claim the EIC Without a Child

- Lived in the United States more than half the tax year.
- At least 25 but under age 65 on Dec. 31.
- Not qualify as the dependent of another person.

EIC Eligibility Requirements - Summary

- Rules for Everyone
- Rules If You Have a Qualifying Child
- Rules If You Do Not Have a Qualifying Child
- Earned Income and AGI Limitations
- Investment Income

Determining Eligibility and Figuring the Credit

- EIC Worksheets
- EIC Tables

Determining Schedule EIC for Qualifying Child(ren)

Reporting Qualifying Child Information

EIC – General Information

- EIC – Eligibility Tools
- Common EIC Return Errors
- Disallowed Earned Income Credit
- Advance Earned Income Credit Payments (AEIC)

LESSON 11

CHILD TAX CREDIT

LESSON 11 - OBJECTIVES

- Calculate the Child Tax Credit using the child tax credit worksheet
- Calculate the Additional Child Tax Credit by using Form 8812, Additional Child Tax Credit

New Tax Law

Working Families Tax Relief Act of 2004

- Form 8812, Additional Child Tax Credit

Child Tax Credit

- Qualifying Child
- Limits on credit
- Modified AGI

Checking Your Withholding

- The child tax credit decreases the tax liability dollar for dollar, but not below zero

Additional Child Tax Credit

- Use Form 8812 to compute
- Before completing the form, gather the following information:
  - Total Social Security and Medicare taxes withheld (Form W-2, boxes 4 and 6)
  - Earned Income Credit Amount
  - Taxable earned income
  - Any adjustment to income for self-employment tax

IRS

Interview Tips

Child Tax Credit

IRS

LESSON 12

SALE OF STOCK

LESSON 12 - OBJECTIVES

- Identify the items that affect the basis of a stock
- Determine if a stock's holding period is long-term or short-term
- Determine when and how to report commissions from sale of stock on Schedule D
- Calculate the taxable gain or deductible loss using the Schedule D
- Calculate the tax liability using the Qualified Dividends and Capital Gain Worksheet

Sale of Stock

- What You Will Need
  - Form 1099-B, *Proceeds From Broker and Barter Exchange Transactions*
  - Taxpayer's records of basis in the stock sold
  - Taxpayer's records of the date the stock was originally acquired
  - Form 1099-DIV, *Dividends and Distributions*
  - Taxpayer's *Capital Loss Carryover Worksheet*

Basis Adjustments

- The basis of property is usually its cost
- Include in basis:
  - **Commissions paid when purchasing or selling the stock**
  - **Reinvested dividends**
  - **Stock splits**

Holding Period

- Stock held for more than 12 months is considered Long-term property
- Stock held for 1 year or less has a Short-term holding period
- Stock acquired through a stock split has the same holding period as the original stock

Commissions

- Commissions that are paid when the stock is purchased should be added to the basis of the stock
- Commissions paid when the stock is sold, generally reduce the gross proceeds of the sale
- If the 1099-B reports the gross proceeds, add the commission paid at sale to the basis of the stock

Reporting Dividends

- List dividends from Form 1099-DIV on 1040 or 1040A on line 9a
- List qualifying dividends on line 9b

If the taxpayer has other items (such as stock sales) to report on Schedule D, qualifying dividends from Form 1099-DIV should be listed on the Schedule D

Reporting Capital Gains

- If the only capital gain income is from Form 1099-DIV, the amount(s) can be entered directly on Form 1040, line 13
- Be sure to use the Qualified Dividends and Capital Gain Tax Worksheet to figure the tax

or

- If the taxpayer has other items (such as stock sales) to report on Schedule D, the capital gain distribution from Form 1099-DIV should be listed on the Schedule D to figure tax

IRS

Reporting the Gain or Loss

- Use Schedule D to report gains and losses from stock sales
- List the stock in the correct section of the schedule (Part 1, Short-term; Part II, Long-term)
- If more than four sales occurred, use Schedule D-1, transfer the total to the Schedule D

Qualified Dividends and Capital Gain Tax Worksheet

- If the taxpayer has a positive number on the capital gain line, the tax for the entire return should be calculated using the Qualified Dividends and Capital Gain Tax Worksheet
- If the Schedule D is not required, you can use the worksheet in the 1040 or 1040A instructions to calculate the correct tax

Tax Computation

- Long-term capital gains have a lower tax rate
- Complete Schedule D Tax Worksheet
- Unrecaptured Section 1250 Gain Worksheet is beyond the scope of VITA/TCE.

Capital Loss Carryover

- Maximum net capital loss deduction in 2004 is $3,000
- Unused losses keep their short-term or long-term classification
- The carryover does not expire

LESSON 13

SALE OF HOME

LESSON 13 - OBJECTIVES

- Determine the amount of gain a taxpayer may exclude if a primary residence is sold

Gain on the Sale of Main Home

- Selling Price
  - Total amount received, less
  - Selling expenses (commissions, fees, advertising)
- Basis
  - The original cost of the home, plus
  - Capital improvements

Maximum exclusion

- A single homeowner can exclude up to $250,000 of gain
- A married couple can exclude up to $500,000 of gain, if
  - They file a joint return
  - Either spouse meets the ownership test
  - Both meet the use test
  - Neither excluded gain in the past 2 years

Loss on the sale of a main home is not deductible!

LESSON 14

PENSIONS

LESSON 14 - OBJECTIVES

- Determine the taxable portion of different types of Retirement Income
- Report Retirement Income on the Tax Return
- Explain when a Minimum Distribution is required
- Determine when an adjustment to withholding should be made

IRS

Pensions and Annuities

- Pension
- Annuity
- Qualified Employee Plan
- 401(k) Plan

Taxable Portion of Retirement Income

- Fully Taxable
  - No basis in the plan
  - All distributions are included in taxable income
- Partially Taxable
  - Basis or cost in the plan
  - Only the taxable portion of the distribution is included in taxable income

Determining Taxable Retirement Income

- The General Rule
- The Simplified Method
  - Based on total basis or cost in the plan
  - Divided by the total anticipated monthly payments
  - Generally does not change, once computed

Reporting the Income

	1040	1040A
IRA	Line 15	11
Pension	Line 16	12
Annuity	Line 16	12
Social Security	Line 20	14
Railroad-Tier 1	Line 20	14
Railroad-Tier 2	Line 16	12

IRS

Disability Pension

- Treated as wages until the taxpayer reaches minimum retirement age

Minimum Distributions

- Distributions must begin by April 1 of the calendar year that follows the calendar year in which the individual reaches 70 ½
- Excise tax (50%) imposed on amount not distributed as required

Railroad Retirement

- Tier 1 treated the same as Social Security benefits
- Tier 2 treated the same as a pension

Social Security and Tier 1 RRB

- Part of the Social Security benefits or Tier 1 Railroad Retirement Benefits may be taxable
- Use the worksheet to calculate the taxable benefits if preparing a return by hand
- Accurately entering all of the required information in your tax software program will result in this calculation being made automatically

IRS

IRA Distributions

- Traditional IRA distributions may be fully or partially taxable
- Roth IRA distributions are not taxed if requirements are met

HCTC

- State agencies identify and notify taxpayers who are eligible for the program

COURSE SUMMARY

- Thank you for agreeing to help others with their tax returns
- Always try to establish a system of quality review at your site
- If you are not already electronically filing returns, please consider this option
- Make sure all of the returns that you prepare are designated with site's "S" #

e-learning Options

Link & Learn Taxes

linking volunteers to quality e-learning solutions

IRS-SPEC's new e-learning application

&

Understanding Taxes Website

http://www.irs.gov/app/understandingTaxes/index.jsp